



CASH HANDLING INTERNAL CONTROL REVIEW

*Review of County Change Funds, Revolving Funds and
Cash Receiving Functions*

*Clark County Auditor's Office
Report #98-1*

February 11, 1998

CLARK COUNTY AUDITOR

Liz Luce



AUDITOR

LIZ LUCE

M E M O R A N D U M

DATE: February 11, 1998
TO: Betty Sue Morris, Chair, Board of Clark County Commissioners
FROM: Liz Luce, Clark County Auditor
CC: Mel Gordon, Clark County Commissioner
Judie Stanton, Clark County Commissioner
RE: Cash Handling Internal Control Review

I am enclosing our report presenting the findings and recommendations from our review of selected county revolving funds, change funds and county cash receiving functions. Our review focused on verifying fund balances and assessing administrative practices in the forty-five areas within the county that have either a revolving fund, a change fund or receive payments. In all, our office reviewed thirty-one funds or cash receiving functions including eleven change funds, eight petty cash revolving funds, six checking accounts, and six additional areas that receive payments but do not have a change or revolving fund. The remaining fourteen funds or cash receiving functions were reviewed by the State Auditor's Office or had minimal findings in our 1996 review.

Overall we found adequate internal controls in place over the county's revolving funds, change funds and cash receiving functions. We commend the managers and staff for their efforts to maintain complete documentation and employ generally strong internal controls. Our review did not identify any material internal control weaknesses. We did, however, identify a number of opportunities for improvement. We present a summary of our findings and recommendations in Section 4.0 beginning on page 5.

Our cash handling internal control review is part of our broader effort to work with county managers and staff to strengthen internal controls. These efforts include distributing internal control guidelines and providing Fraud Awareness Training to county managers. In 1998 we will continue our review of revolving funds, change funds, and cash receiving functions, following up on our prior recommendations and helping departments strengthen their procedures.

We wish to thank the managers and staff responsible for these funds for their cooperation and assistance during our review and for responding to our findings and recommendations. If you have any questions please do not hesitate to contact me.

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1.0 Executive Summary

1.1 Project Overview

County government is responsible for using public assets and public funds in a prudent and responsible manner. County managers in turn are responsible for developing and maintaining procedures that protect public assets and promote efficient and effective services. These operating procedures and the environment promoted by managers are called internal controls. The Clark County Auditor's Office reviewed the internal controls for selected county revolving funds, change funds, and cash receiving functions during 1997.

In Clark County there are twenty revolving funds which total \$58,350 and sixteen change funds which total \$4,500. Revolving funds are small amounts of cash ("petty cash") or checking accounts used for expenditures that, for reasons of timing or small dollar amounts, do not justify using the county's purchasing, requisition and warrant process. Change funds provide the necessary cash to make change for customers making payments to the county.

In 1997 we reviewed a total of thirty-one funds and other areas that receive payments. Our review included those revolving funds and change funds with significant findings from our 1996 review and all decentralized areas which receive payments unless they were reviewed by the State Auditor's Office during 1997.

1.2 Summary of Findings and Recommendations

Overall we found the county's revolving funds and change funds to be well managed with adequate internal controls in place. We also found that the departments which receive payments generally had good internal controls in place. We did, however, identify opportunities to strengthen internal controls for nearly all of the funds. A summary of these recommendations begins on page 5. Our more frequent recommendations include:

- The custodian of petty cash funds should sign, date, and mark paid on all receipts submitted to him or her for reimbursement. This will cancel the receipts and prevent them from being reused.
- The fund should be reconciled and replenished in a regular and timely manner and should always be replenished at year end. Additionally, if the fund is a checking account, replenishment should only be requested for those checks which have cleared the bank.
- The fund and related records should be secured so that only the designated fund custodian or alternate custodian has access.
- The Treasurer maintains the primary records of county's revolving funds and change funds including the names of the designated fund custodians. During our review we found that these records were not always up to date.

2.0 Project Objectives and Methodology

2.1 Objectives

In 1995 the Clark County Auditor's Office Internal Audit Division began a more proactive effort to assist managers with the development of strong internal controls over cash handling. We distributed internal control guidelines to department managers with the most recent update distributed in February of 1997. These guidelines outline the State Budgeting Accounting and Reporting System (BARS) requirements for maintaining petty cash and revolving fund checking accounts. In 1996 we also provided fraud awareness training to inform managers of ways to prevent fraud and detect other errors or irregularities. The training as well as the internal control guidelines provide managers with the information necessary to review and revise, when necessary, their department's procedures for administering revolving funds and change funds.

During 1997 the Clark County Auditor's Office Internal Audit Division performed a review of selected petty cash and revolving funds. We also completed a limited review of the controls over cash received by county departments. Our work focused on a review of procedures and practices that ensure the funds are properly safeguarded and accounted for and that transactions are approved and records maintained which adequately support the administration and activity within the fund. Additionally, we reviewed the balance in the fund as compared to the authorized balance to ensure that all of the money was accounted for.

2.2 Methodology

We prepared a list of all revolving funds, change funds, and departments receiving cash in the county. Based on findings from our review in 1996 and work performed by the State Auditor's Office we prioritized and scheduled the work for our 1997 review. We reviewed a total of thirty-one funds and cash receiving functions which included:

- Eleven change change funds ten of which had cash receiving responsibilities
- Eight petty cash revolving funds
- Six checking accounts one of which had cash receiving responsibilities
- Six cash receiving areas with no change or revolving funds.

Based on our selection criteria mentioned above we did not review fourteen areas in 1997. Nine of these areas were reviewed by the State Auditor's Office in 1997. A complete list of all funds and cash receiving functions may be found at Exhibit 1 on page 8.

We completed our review of each fund or cash receiving area with an unannounced visit to the custodian. During our visit we verified the amount of money on hand or in the checking account and completed our checklist of key compliance areas and control procedures. Based on our review we identified areas where controls were strong and functioning as intended. We also identified areas where controls could be improved. We discussed both of these areas with the fund custodian and formalized our findings and recommendations in a memorandum to the manager.

We began our reviews in February of 1997 and completed all reviews by December of 1997. We plan to continue our review of revolving funds and change funds on an annual basis as well as include a limited review of internal controls over functions which receipt cash. Our presence within the various county departments is intended to encourage open communication about cash handling procedures and promote strong internal controls throughout the county.

3.0 Purpose of Revolving Funds, Change Funds & Internal Controls

3.1 Revolving Funds and Change Funds

The purpose of **revolving funds** is to provide a means of paying for expenditures that are not appropriate or cost effective to process through the county's purchasing, requisition and warrant systems. These funds provide an expedient and cost effective means of paying for emergency needs, small dollar purchases and to issue refunds. The fund is replenished by submitting a voucher along with original receipts and supporting documentation to the Accounting Department. In turn, Accounting generates a warrant to replenish the fund. The purpose of **change funds** is to provide money for custodians and cashiers who need to make change when receiving cash payments. As of December 1997 there were a total of twenty **revolving funds** and sixteen **change funds** in Clark County.

To establish these funds departments describe the need for the fund and formally request approval by the Board of County Commissioners (Board). Once approved by the Board, the Treasurer's Office authorizes a warrant to establish the fund in the approved amount. The custodian issues the money for the purchase only after receiving complete documentation and proper approval for each purchase. Some examples of **revolving funds** include:

- **The Sheriff's Civil Checking Account Revolving Fund** is used to refund overpayments made by attorneys and others who mail in checks to cover the cost of serving civil papers.
- **The Coroner's Petty Cash Revolving Fund** is used to purchase small items like rubber gloves and bed sheets on short notice.

Examples of **change funds** are:

- **The Auto License Change Fund** is divided among work stations and is used to provide change to citizens paying vehicle registration fees in cash.

- **The Building Department Change Fund** is used by the department's cashier to provide change when developers and citizens pay for building permits and other charges with cash.

3.2 Cash Receipts

Several departments throughout the county receive cash. We identified seventeen areas with this responsibility. Many of these areas also have **change funds** which, as described earlier, are used to make change for customer payments processed over the counter. There are a variety of areas within the county which process **cash receipts** which include some of the following:

- **Recording and Marriage License.** This department processes payments received to officially record documents, to issue marriage licenses, and to provide copies of documents.
- **Superior Court.** Payments are received in this department for court video tapes, transcripts, and restitution from the Clerk's Office.

3.3 Internal Controls

Internal controls are the operating systems and environment established and maintained by management to safeguard public assets and comply with policies and laws. It includes procedures and daily activities as well as the atmosphere and attitude promoted by managers.

A good system of internal controls should minimize the potential for errors or irregularities to occur. If they do occur, good internal controls should detect such errors or irregularities in a timely manner during the normal course of business. This is generally achieved by:

- Making sure cash handling and record keeping duties and responsibilities are divided among several staff.
- Documenting all expenditures with original receipts and the proper approval authority.
- Balancing transactions on a daily basis and reconciling the balance in the fund to the bank statement and/or Treasurer's Office deposit receipts monthly.
- Replenishing revolving funds monthly and at year end.
- Documenting internal control procedures and conducting random reviews of deposits, reconciliations, and other documentation to establish that procedures are being followed and revenues and expenditures are reasonable.
- Promoting an attitude and environment that helps perpetuate good internal controls.

Managers are responsible for establishing internal controls but it takes the commitment of their staff to make them work. In addition, supervisors, staff and management in the Treasurer's Office and Auditor's Office maintain documentation, record transactions, provide reports, and perform audit services. Trained staff and sound management all serve to maintain operating systems and environments that promote strong internal controls.

4.0 Summary of Findings and Recommendations

4.1 Findings and Recommendations

Overall we found the revolving funds, change funds, and cash receipt functions were well managed and balanced to their authorized amounts. We compliment the managers and fund custodians for their efforts to maintain excellent documentation and strong internal controls in the administration of these types of funds. While we did not identify any material weaknesses during our review, we did find a number of opportunities for improvement. Some of the more common recommendations we made are listed below. Our recommendations, summarized by type of fund and cash receipting function, are also listed in the exhibit on page eight.

Revolving Funds

Cancellation of receipts - Original receipts which represent payment for purchases should be signed by the fund custodian when paid. This indicates that the fund custodian issued money from the revolving fund to whoever made the purchase and prevents the receipt from being reused. We found five funds where the custodian did not sign and date the receipts and we recommended that they do so in the future when making disbursements from the fund.

Regular and timely fund replenishment - Revolving funds should be replenished on a regular basis and always replenished at year end. Additionally, the funds should always be replenished at year end to make sure all expenses are recorded in the proper accounting period. When a checking account is replenished, only those checks which have been paid by the bank should be included for reimbursement. If checks are replenished before they have been paid by the bank, and the checks are later voided, the fund could accumulate an amount that exceeds it's authorized balance. The custodian must then return the excess money to the Treasurer. We also found instances where the replenishment check was not deposited or cashed within two business days of receipt. Timely deposits help avoid any possible mishandling of funds. These recommendations were made on five reviews.

Revolving Funds and Change Funds

Change of designated fund custodian - The Treasurer's Office is responsible for distributing cash to county departments for new petty cash, change funds, and checking accounts in accordance with the Board of County Commissioners' approval. Part of this responsibility includes maintaining the primary records for all revolving funds and change funds including a record of the designated fund custodian. We found in six of our reviews the fund custodian designated by the department was not always the custodian of record in the Treasurer's Office. A change in the designated fund custodian or alternate fund custodian creates the need for the department manager to notify the Treasurer's Office of this change. Additionally, it is important that the Treasurer's Office appropriately update their records to properly reflect any changes.

Fund security - All revolving funds, change funds, and related records should be properly secured with access restricted to only the designated fund custodian or alternate custodian. This is important to reduce the potential for mishandling of public funds. Proper security should include storing the cash or check book in a locked box or locked drawer and changing the combination on the safe or the lock(s) when there is a change in custodian or alternate custodian. If a receipt book is used, it should also be secured. If it is not locked in a drawer than at a minimum it should be placed out of sight to prevent possible mishandling. These recommendations were made in five of our reviews.

Cash Receiving Functions

Review voided transactions - Voided transactions should be well documented and adequately reviewed to help prevent and detect fraud. Properly separating cash handling responsibilities and periodically reviewing voided transactions will help make it more difficult for a cashier to accept a customer's payment, issue a receipt, and then later void the transaction and take the cash. Because of this, when a cashier voids a transaction it is important to keep all copies of the receipt, including the original copy, and document the reason for the void. Retention of the original receipt also prevents the customer from presenting the receipt as proof of payment at a later date. An additional control would be to obtain authorization for the void from an individual other than the cashier. This authorization would be documented on the receipt with the employee's signature. Managers should review voids on a routine basis to determine that adequate documentation exists to support the validity of the voided transaction. We made this recommendation in four of our reviews.

Review deposits - On a routine basis department managers with cash receiving responsibilities should review deposits to determine that funds were deposited as required and amounts were posted to the proper General Ledger account. Proper procedures would dictate that managers compare the deposit receipts with the amount posted to the General Ledger accounts and make necessary corrections in a timely manner. We made recommendations to four departments in particular which should begin doing this review. The Auditor's Office is available to help departments get started with this review.

Other recommendations - Other less frequent recommendations include:

- The designated fund custodian should review revolving fund checking account activity for checks issued and outstanding longer than one year. Banks generally will not honor checks older than one year and for record keeping purposes these checks should be voided. Additionally, when checks have been outstanding for this length of time it is an indication that the check will never be cashed. The custodian may want to follow up with the payee prior to voiding the check to request that they cash the check or to determine if the original check was lost.

- Departments should maintain a proper separation of duties when administering their funds and receiving payments. A proper separation of duties is achieved when one employee does not handle all aspects of a transaction. We found two instances where the fund's custodian originated and authorized payments, issued the cash or check, and later reconciled the fund for replenishment. Separating these duties promotes the timely detection of any errors or irregularities that may occur.
- Department managers should continue to evaluate the need as well as the balance in their petty cash, change fund, or revolving fund checking account. If the custodian does not find it necessary to replenish the fund at least every two or three months this could indicate that the fund's authorized amount is too high. Revolving funds with little to no activity in a given year should be closed or the authorized balance decreased. On the other hand, if the custodian is having to replenish the fund more than once or twice a month this could indicate that the balance in the fund is insufficient and the fund may need to be increased. In addition, managers should also evaluate the fund's purpose. Some managers may find that the purpose of the fund has changed from that which was approved by the Board of County Commissioners. When this occurs the department should have the Board review and approve the fund's modified use.
- While our reviews are structured to identify internal control issues we also look for ways to help department's streamline their procedures. During our reviews we identified opportunities for departments to more efficiently complete their work. These recommendations included eliminating a manual log and sending deposits to the Treasurer's Office for pick up by armored transport. This will help to eliminate employee trips to the bank throughout the day.

The matrix on the following page summarizes the recommendations we made for each fund or cash receiving area. These recommendations were offered to the managers in the various departments to help strengthen internal controls over county funds. The Clark County Auditor's Office Internal Audit Division is available to assist departments with any questions they may have regarding internal controls and the management of the petty cash, change funds, and revolving fund checking accounts. We would like to thank the department managers and fund custodians for their assistance and cooperation during our reviews.

RECOMMENDATIONS BY ACCOUNT

Department	Type of fund	Extended cash receipt testwork	No testwork in 1997	Testwork performed by State Auditors	No recommendations	RECOMMENDATIONS													
						Obtain BOCC approval for fund	Develop written procedures	Reconcile cash & check composition	Reconcile & replenish fund according to BARS	Management review of deposits	Secure fund and/or related records	Cancel receipts to prevent reuse	Update name of fund custodian	Separate key duties	Endorse checks when received	Refund due to Treasurer	Review sequence of issued receipts	Review voided transactions	Other
Accounting	CH	✓					✓				✓								✓
Adult Diversion	CK	✓							✓		✓								✓
Advance Travel	CK																		✓
Animal Protection	CH			✓															
Assessment & GIS	CH	✓				✓	✓	✓		✓									✓
Auto License	CH	✓			✓														
Child Abuse Center		✓								✓									✓
Clerk's Trust Account	CK			✓															
Co-op Extension				✓															
Communications Center	PC											✓	✓			✓			
Community Development	PC			✓															
Community Development - Building	CH			✓															
Community Development - Planning	CH			✓															
Coroner	PC										R								✓
Corrections	CH	✓										✓	✓					✓	✓
Corrections Employment	PC												✓						
Corrections Mabry	CH	✓									✓		✓						✓
County Clerk	CH			✓															
Data Processing	PC		✓																
District Court	CH			✓															
Elections	CH	✓											✓						✓
Facilities		✓								✓									
Human Resources		✓					✓				✓			✓	✓				
Juvenile Court	PC											R	✓						
Juvenile Diversion	CH	✓											✓				✓	✓	✓
Loss Liability	CK								R							R			✓
North County Office - Permits		✓																✓	
Prosecuting Attorney	CK								✓										
Public Works - 78th Street	PC		✓																
Public Works - ER&R	PC		✓																
Public Works - Esther Street	PC		✓																
Public Works - Operations	PC				✓														
Public Works - Permits	CH	✓			✓														
Recording & Marriage License	CH	✓						✓											
Recording & Marriage License	CK																		✓
Sewer Plant	PC				✓														
Sheriff - Civil	CK								R										
Sheriff - Civil	CH	✓																	✓
Sheriff - Drug Task Force	PC					✓		✓				✓							✓
Sheriff - Informant Fund	PC											✓							
Sheriff - Inmate Trust Account	CK			✓															
Superior Court		✓												✓	✓		✓		
Treasurer	CH				✓														
Work Release		✓								✓							✓	✓	
Workers Compensation	CK		✓																
TOTALS		17	5	9	5	2	3	2	5	4	5	5	6	2	2	2	3	4	14
REPEAT RECOMMENDATIONS					0	0	0	0	2	0	1	1	0	0	0	1	0	0	0

R - Repeat Recommendation from 1996

PC - Petty Cash

CK - Checking Account

CH - Change Fund